

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Wildman Analyst: Gloria McConnell Bill Number: AB 1287

Related Bills: _____ Telephone: 845-4336 Amended Date: 06/09/98

Attorney: Doug Powers

Sponsor: _____

SUBJECT: Small Employer Health Care Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

☒ FURTHER AMENDMENTS NECESSARY.

☒ DEPARTMENT POSITION CHANGED TO NO POSITION.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED 01/16/98 STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (BCTL), for a period of five years beginning on or after January 1, 1999, eligible small employers, as defined, would be allowed a credit for providing health coverage, as defined, to their employees or dependents thereof. The credit would be an "applicable percentage" of the monthly costs paid or incurred during the year. The "applicable percentage" would be 10% for years beginning in 1999 and would increase 5% each year thereafter to a maximum percentage of 25% for years beginning 2002 and thereafter.

The allowed credit would be in lieu of any deduction otherwise allowable, but the employer could elect to annually choose either the applicable deduction or the credit.

The California Research Bureau would be required to annually report to the Legislature on or before March 1, 2001, and each year thereafter on the effectiveness of the credit in encouraging small businesses to offer health insurance to employees.

SUMMARY OF AMENDMENT

This amendment removes the intent language and returns the bill to the version as amended January 16, 1998. FTB's analysis of bill as amended January 16, 1998, still applies; however, the following technical considerations have since been identified:

- On page 2, line 6, "the amount" should be eliminated from the phrase "the amount of net tax." to provide consistency with the other PITL credits. Amendment 1 eliminates the phrase.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input checked="" type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Department/Legislative Director

Date

Johnnie Lou Rosas

6/24/98

- The credit is with respect to health coverage for employees (pages 4 and 9, (h)(3)(A) and (B)). To prevent confusion, the definition of an employee for purposes of this tax credit and the Unemployment Insurance Code should be the same and would not include independent contractors. See Amendments 2 through 5 for the suggested change.
- Under the BCTL provision of this bill, the definition of "eligible individual" makes reference to certain sole proprietors (page 9, line 38), as well as employees and shareholders. Reference to sole proprietors is unnecessary because there would be no situation where a sole proprietor would perform services for a corporation, except as an employee. Amendment 6 removes this reference.

BOARD POSITION

No position. At its March 26, 1998, meeting, the Franchise Tax Board considered this bill but took no position. Julie Bornstein, on behalf of the Controller Kathleen Connell, was neutral; Member Dean Andal supported; and Robin J Dezemmer, on behalf of Member Craig L Brown, abstained.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1287
As Amended June 9, 1998

AMENDMENT 1

On page 2, line 6, strike out "amount of"

AMENDMENT 2

On page 4, strike out line 37, and on page 9, strike out line 29, and
insert:

(A) Performs services in the employment of, within the meaning of Chapter 3 of
Division 1 of the Unemployment Insurance Code (commencing with Section 601), an
eligible employer for either of the following periods: (i) an

AMENDMENT 3

On page 4, strike out line 39, and on page 9, strike out line 31, and
insert:

(ii) less

AMENDMENT 4

On page 5, line 2, and page 9, line 34, strike out "subparagraph" and
insert:
clause

AMENDMENT 5

On page 5, line 6, and page 9, line 38, strike out "(C)" and insert:
(B)

AMENDMENT 6

On page 9, line 38 strike out "sole proprietor or"